STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 752

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Piedmont Natural Gas Company,	)	
Inc. for Annual Review of Gas Costs Pursuant	)	ORDER ON ANNUAL REVIEW
to N.C. Gen Stat. § 62-33.4(c) and Commission	)	OF GAS COSTS
Rule R1-17(k)(6)	)	

HEARD: Tuesday, October 1, 2019, at 10:00 a.m., in Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chair Charlotte A. Mitchell, and Commissioner Lyons Gray

APPEARANCES:

For Piedmont Natural Gas Company, Inc.:

Mindy McGrath, McGuireWoods LLP, 201 N. Tryon Street, Suite 3000, Charlotte, North Carolina 28202

Brian S. Heslin, Duke Energy Corporation, 550 S. Tryon Street, Charlotte, North Carolina 28202

For the Using and Consuming Public:

Elizabeth D. Culpepper, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699

For Carolina Utility Customers Association, Inc.:

Robert F. Page, Crisp & Page, PLLC, 4010 Barrett Drive, Suite 205, Raleigh, North Carolina 27609

BY THE COMMISSION: On August 1, 2019, pursuant to N.C. Gen Stat. § 62-33.4(c) and Commission Rule R1-17(k)(6), Piedmont Natural Gas Company, Inc. (Piedmont or Company), filed the direct testimonies and exhibits of MaryBeth Tomlinson, Manager of Gas Accounting; Gennifer Raney, Director of Pipeline Services; and Sarah E. Stabley, Managing Director of Gas Supply Optimization and Pipeline Services. Piedmont's witnesses attested to the prudence of the Company's gas purchasing practices and the accuracy of the Company's gas cost accounting for the 12-month period ended May 31, 2019 (review period).

On August 2, 2019, the Commission issued its Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines and Requiring Public Notice. This Order established a hearing date of October 1, 2019, set prefiled testimony dates, and required the Company to give notice to its customers of the hearing on this matter.

On August 14, 2019, Carolina Utility Customers Association, Inc. (CUCA) filed a petition seeking to intervene in this docket. On August 15, 2019, the Commission issued an Order Granting Petition to Intervene.

On August 16, 2019, the Company filed Supplemental Testimony and Exhibits of MaryBeth Tomlinson.

On September 16, 2019, the Company filed its affidavits of publication.

On September 16, 2019, the Public Staff filed the prefiled joint testimony of Poornima Jayasheela, Staff Accountant, Accounting Division; Zarka H. Naba, Public Utilities Engineer, Natural Gas Division; and Julie G. Perry, Manager, Natural Gas and Transportation Section, Accounting Division (Public Staff Panel or Panel).

On September 24, 2019, the Company filed a letter to clarify that Company witness Raney’s Exhibits were incorrectly marked as “confidential” when filed.

On September 24, 2019, the Public Staff filed a motion to excuse all Public Staff witnesses from attending the hearing scheduled for October 1, 2019, and to accept the prefiled joint testimony and appendices of all Public Staff witnesses into the record of this proceeding without requiring the appearance of any such witnesses. The Public Staff’s motion was granted by the Commission on September 26, 2019.

On September 26, 2019, the Commission issued its Order Providing Notice of Commission Questions.

On September 26, 2019, the Public Staff filed a revised page 10 of its joint testimony and the Company filed the Rebuttal Testimony and Exhibit of MaryBeth Tomlinson.

On September 27, 2019, Piedmont filed a Motion to Excuse Witnesses Sarah E. Stabley and MaryBeth Tomlinson from attending the October 1, 2019 hearing and to allow the introduction of all prefiled testimony and exhibits of these witnesses into the record at the hearing. Piedmont’s motion was granted by the Commission on September 30, 2019.

On October 1, 2019, this matter came on for hearing as scheduled, and all prefiled testimony and exhibits were admitted into evidence. No public witnesses appeared at the hearing.

On December 4, 2019, Piedmont and the Public Staff filed a Joint Proposed Order.

Based on the testimony and exhibits received into evidence and the record as a whole, the Commission makes the following:

FINDINGS OF FACT

1. Piedmont is a public utility as defined in Chapter 62 of the North Carolina General Statutes and is subject to the jurisdiction and regulation of the Commission.

2. Piedmont is engaged primarily in the business of transporting, distributing, and selling natural gas to customers in North Carolina, South Carolina, and Tennessee.

3. Piedmont has filed with the Commission and submitted to the Public Staff all of the information required by N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-7(k).

4. The review period in this proceeding is the 12 months ended May 31, 2019.

5. The Company properly accounted for its gas costs incurred during the review period.

6. During the review period, the Company incurred total North Carolina gas costs of $352,122,738, which was comprised of demand and storage charges of $133,470,011, commodity gas costs of $233,172,219, and other gas costs of ($14,519,492).

7. At May 31, 2019, the Company had a net debit balance of $1,093,864 (ending balance of ($83,493) plus hedging deferred account balance of $1,177,357) owed from the customers to the Company, in its Sales Customers Only Deferred Account and a credit balance of $17,913,017, owed from the Company to the customers, in its All Customers Deferred Account.

8. During the review period, Piedmont actively participated in secondary market transactions earning actual margins of $23,603,588 for the benefit of North Carolina ratepayers.

9. Piedmont operated a gas cost hedging program on behalf of customers during the review period. Piedmont's hedging activities during the review period were reasonable and prudent.

10. At May 31, 2019, the balance in the Company's Hedging Deferred Account was a debit balance of $1,177,357.

11. It is appropriate for the Company to include the $1,177,357 debit balance in its Hedging Deferred Account in its Sales Customers Only Deferred Account. The

combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of $1,093,864.

12. The Company has transportation and storage contracts with interstate and intrastate pipelines, which provide for the transportation of gas to the Company's system, and long-term supply contracts with producers, marketers, and other suppliers.

13. The Company utilized a "best cost" gas purchasing policy during the applicable review period consisting of five main components: price of gas, security of the gas supply, flexibility of the gas supply, gas deliverability, and supplier relations.

14. The Company's gas purchasing policy and practices during the review period were prudent.

15. The Company's capacity acquisition planning and arrangements are reasonable and prudent.

16. The Company's gas costs during the review period were prudently incurred, and the Company should be permitted to recover 100% of such prudently incurred gas costs.

17. The Company should remove the existing temporary decrements and increment approved in the Company's prior annual review of gas costs proceeding (Docket No. G-9, Sub 727), and implement the temporaries as proposed by Company witness Tomlinson and agreed to by the Public Staff.

18. It is appropriate for the Company to provide more detailed secondary market information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019.

19. For the current review period, it is appropriate for the Company to apply an interest rate of 6.94% for the first seven months (June 1, 2018 to December 31, 2018) and an interest rate of 6.95% for the remaining five months of the review period (January 1, 2019 to May 31, 2019), and subsequent months, until further Order by the Commission.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1-2

The evidence supporting these findings of fact is contained in the official files and records of the Commission and the testimony of Company witnesses Tomlinson, Raney, and Stabley. These findings are essentially informational, procedural, or jurisdictional in nature and are not contested by any party.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 3-4

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson, Raney, and Stabley, and the testimony of the Public Staff

Panel. These findings are made pursuant to N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-7(k)(6).

Pursuant to N.C. Gen Stat. § 62-133.4, Piedmont is required to submit to the Commission information and data for an historical 12-month review period including Piedmont's actual cost of gas, volumes of purchased gas, sales volumes, negotiated sales volumes, and transportation volumes. Commission Rule R1-17(k)(6)(a) establishes May 31, 2019, as the end date of the annual review period for the Company in this proceeding. Commission Rule R1-17(k)(6)(c) requires that Piedmont file weather-normalized data, sales volumes, work papers, and direct testimony and exhibits supporting the information.

Company witness Tomlinson testified that the Company filed with the Commission and submitted to the Public Staff throughout the review period complete monthly accountings of the computations required by Commission Rule R1-17(k)(6)(c). Witness Tomlinson included the annual data required by Commission Rule R1-17(k)(6)(c) as Exhibit_(MBT-1) to her direct testimony. The Public Staff Panel stated that they had presented the results of their review of the gas cost information filed by Piedmont in accordance with N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k)(6).

Based upon the foregoing, the Commission concludes that Piedmont has complied with the procedural requirements of N.C. Gen Stat. § 62-133.4(c) and Commission Rule R1-17(k) for the 12-month review period ended May 31, 2019.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5-7

The evidence supporting these findings of fact is contained in the testimony of Company witness Tomlinson and the Public Staff Panel testimony.

Company witness Tomlinson testified that Piedmont incurred total North Carolina gas costs of $352,122,738 during the review period, which was comprised of demand and storage charges of $133,470,011, commodity gas costs of $233,172,219, and other gas costs of ($14,519,492).

Company witness Tomlinson's prefiled testimony and exhibits reflected a net debit balance of $1,093,864 in its Sales Customers Only Deferred Account (which includes an ending balance of ($83,493) and a hedging deferred account balance of $1,177,357) and a credit balance of $17,913,017 in its All Customers Deferred Account as of May 31, 2019. The Public Staff Panel agreed with these balances and testified that the Company properly accounted for its gas costs incurred during the review period.

Based upon the foregoing, the Commission concludes that the Company properly accounted for its gas costs incurred during the review period. The Commission also concludes that the appropriate level of total North Carolina gas costs incurred for this proceeding is $352,122,738. The Commission further concludes that the appropriate deferred gas cost account balances as of as of May 31, 2019, are a net debit balance of

$1,093,864, owed from the customers to the Company, in its Sales Customers Only Deferred Account, and a credit balance of $17,913,017, owed from the Company to the customers, in its All Customers Deferred Account.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence supporting this finding of fact is contained in the testimony of Company witness Stabley and the Public Staff Panel testimony.

Company witness Stabley provided testimony on the process that Piedmont utilized and the market intelligence that was evaluated during the review period to determine the prices charged for off-system sales. Witness Stabley explained that the process and information used by Piedmont in pricing off-system sales depends upon the location of the sale, term and type of the sale, and prevailing market conditions at the time of the sale. Witness Stabley stated that for long-term delivered sales (longer than one month), Piedmont generally solicits bids from potential buyers and, if acceptable, awards volumes based on bids received and its evaluation. Witness Stabley further stated that, for short-term transactions (daily or monthly), Piedmont monitors prices and volumes on the Intercontinental Exchange, talks to various market participants, and for less liquid trading points, estimates prices based on price relationships with more liquid points. The Company also evaluates the amount of supply available for sale and weighs that against current market conditions in formulating its sales strategy.

The Public Staff Panel testified that the Company earned actual total company margins of $36,913,765 on secondary market transactions and credited the All Customers Deferred Account in the amount of $23,603,588 for the benefit of North Carolina ratepayers (($36,913,765 – 100% of Duke secondary market sales) x NC demand allocator x 75% ratepayer sharing percent) + (100% Duke secondary market sales X NC demand allocator). The margins earned were a result of Piedmont's participation in asset management arrangements, capacity releases, and off system sales.

Based on the foregoing, the Commission concludes that Piedmont actively participated in secondary market transactions, resulting in $23,603,588 of margin for the benefit of North Carolina ratepayers during the review period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9-11

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Tomlinson and Stabley and the Public Staff Panel testimony.

Company witness Tomlinson stated in her testimony that the Company had a debit balance of $1,177,357 in its Hedging Deferred Account at May 31, 2019. The Public Staff Panel testified that the net hedging costs were composed of Economic (Gains) on Closed Positions of ($2,884,060), Premiums Paid of $3,766,200, Brokerage Fees and Commissions of $58,094, and Interest on the Hedging Deferred Account of $237,123.

Company witness Stabley testified that Piedmont's Hedging Plan accomplished its goal of providing an insurance policy to reduce gas cost volatility for customers in the event of a gas price fly up. Witness Stabley testified that the Company did not make any changes to its Hedging Plan during the review period. Witness Stabley further testified that the Company continues to utilize storage as a physical hedge to stabilize cost, and that the Company's Equal Payment Plan, the use of the Purchased Gas Adjustment benchmark price, and deferred gas cost accounting also provide a smoothing effect on gas prices.

The Public Staff Panel testified that its review of the Company's hedging activities is performed on an ongoing basis and includes analysis and evaluation of information contained in several documents and other data. These include the Company's monthly hedging deferred account reports, detailed source documentation, workpapers supporting the derivation of the maximum targeted hedge volumes for each month, periodic reports on the status of hedge coverage for each month, and periodic reports on the market values of the various financial instruments used by the Company to hedge. In addition, the Public Staff reviews monthly Hedging Program Status Reports, monthly reports reconciling the Hedging Program Status Report and the hedging deferred account report, minutes from the meetings of Piedmont's Gas Market Risk Committee (GMRC) – formerly the Energy Price Risk Management Committee. Further, the Public Staff's review includes minutes from the meetings of the Board of Directors and its committees that pertain to hedging activities, reports and correspondence from the Company's internal and external auditors, hedging plan documents, communications with Company personnel regarding key hedging events and plan modifications under consideration by the GMRC, and the testimony and exhibits of the Company's witnesses in the annual gas cost review proceeding.

The Public Staff Panel concluded that Piedmont's hedging activities were reasonable and prudent and recommended that the $1,177,357 debit balance in the Hedging Deferred Account as of the end of the review period be transferred to the Sales Customers Only Deferred Account. Based on this recommendation, the Panel stated that the combined balance in the Sales Customers Only Deferred Account as of May 31, 2019, is a net debit balance, owed to the Company, of $1,093,864.

As demonstrated by the testimony and exhibits provided by Piedmont and the Public Staff's testimony, the Commission finds that Piedmont's hedging program has met the objective of contributing to the mitigation of gas price volatility and avoiding rate shock to customers. The Commission concludes that Piedmont's hedging activities were reasonable and prudent and the $1,177,357 debit balance in the Hedging Deferred Account as of the end of the review period should be transferred to the Sales Customers Only Deferred Account. The combined balance for the Hedging and Sales Customers Only Deferred Accounts is a net debit balance of $1,093,864, owed to the Company.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12-16

The evidence supporting these findings of fact is contained in the testimony of Company witnesses Stabley and Raney and the Public Staff Panel.

Company witness Stabley testified that the Company maintains a “best cost” gas purchasing policy. This policy consists of five main components: price of the gas, security of the gas supply, flexibility of the gas supply, gas deliverability, and supplier relations. Witness Stabley testified that all of these components are interrelated and that the Company weighs the relative importance of each of these factors in developing its overall gas supply portfolio to meet the needs of its customers.

Witness Stabley further testified that the Company purchases gas supplies under a diverse portfolio of contractual arrangements with a number of gas producers and marketers. In general, under the Company’s firm gas supply contracts, Piedmont may pay negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), with market-based commodity prices tied to indices published in industry trade publications. Some of these firm contracts are for winter only (peaking or seasonal) service and some provide for 365 day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract with daily swing service generally being more expensive than monthly baseload service.

Witness Stabley testified that the Company identifies the volume and type of supply that it needs to fulfill its market requirements and generally solicits requests for proposals from a list of suppliers that the Company continuously updates as potential suppliers enter and leave the market place. The type of supply is classified as either baseload or swing. Witness Stabley stated that swing supplies priced at first of month indices command the highest reservation fees because suppliers incur all the price risk associated with market volatility during the delivery period.

Witness Stabley testified that lower reservation fees are associated with swing contracts based upon daily market conditions since both buyer and seller assume the risk of daily market volatility. Witness Stabley stated that after forecasting the ultimate cost delivered to the city gate for each point of supply and evaluating the cost of the reservation fees associated with each type of supply and its corresponding bid, the Company makes a “best cost” decision on which type of supply and supplier best fulfills its needs. Company witness Stabley also testified regarding the current U.S. supply situation and the various pricing alternatives available, such as fixed prices, monthly market indexing, and daily spot market pricing.

Witness Stabley also described how the interrelationship of the five factors of its “best cost” policy affects the Company’s construction of its gas supply and capacity portfolio under its best cost policy. The long-term contracts, supplemented by long-term peaking services and storage, generally are aligned with the firm market; the short-term spot gas generally serves the interruptible market. In order to weigh and consider the five factors, the Company stays abreast of current issues facing the natural gas industry by intervening in all major Federal Energy Regulatory Commission proceedings involving its pipeline transporters, maintaining constant contact with existing and potential suppliers, monitoring gas prices on a real-time basis, subscribing to industry literature, following supply and demand developments, and attending industry seminars. Witness Stabley further testified that the Company did not make any changes in its best cost gas purchasing policies or practices during the review period. Witnesses Raney and Stabley also indicated that during the past year the Company has taken several additional steps to manage its costs, including, actively participating in proceedings at the FERC and other regulatory agencies that could reasonably be expected to affect the Company's rates and services, promoting more efficient peak day use of its system, and utilizing the flexibility within its existing supply and capacity contracts to purchase and dispatch gas, and release capacity in the most cost effective manner.

Company witness Raney testified about the market requirements of Piedmont's North Carolina customers and the acquisition of capacity to serve those markets. Witness Raney also testified that the Company expects the economy to continue recovering and to result in potentially increasing residential, commercial, and industrial demand, and in turn, result in greater firm temperature sensitive requirements that will require firm sales service from the Company.

Witness Raney further testified that Piedmont and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. For that reason, witness Raney testified that Piedmont is confident the conservative approach to design day forecasting is the most prudent approach.

Witness Raney testified that the Company currently notes that it has sufficient supply and capacity rights to meet its near term customer needs into the 2019-2020 winter period timeframe but that growth projections begin to show a capacity deficit in the 2020-2021 timeframe. Witness Raney testified that in light of prospective growth requirements, Piedmont reviewed new capacity options in addition to continuous monitoring of interstate pipeline and storage capacity offerings. Witness Raney further stated that the Company subscribed to the Leidy Southeast Expansion Project (Leidy Southeast) of Transcontinental Gas Pipe Line Company, LLC (Transco), for 100,000 dekatherms (dts) per day of year around capacity and 20,000 dts per day on Transco's Virginia Southside Expansion Project (Virginia Southside), and that the Company signed a Precedent Agreement with ACP in October of 2014 for 160,000 dts of firm capacity, which is scheduled to go in service in late 2021. Witness Raney testified that previously contracted capacity for Leidy Southeast and Transco's Virginia Southside went into service in late 2015 and 2016 and that last year Piedmont announced its intention to construct a liquefied natural gas facility in Robeson County, N.C. (Robeson LNG) to provide peaking supply of natural gas during peak usage days. Witness Raney testified that the facility is anticipated to be completed in the summer of 2021, and that it is forecasted to provide peaking support starting winter 2021-2022.

Witness Raney also testified that capacity additions are acquired in “blocks” of additional transportation, storage, or liquefied natural gas capacity, as they become needed, to ensure Piedmont’s ability to serve its customers based on the options available at that time. Witness Raney explained that as a practical matter, this means that at any given moment in time, Piedmont’s actual capacity assets will vary somewhat from its forecasted demand capacity requirements. Witness Raney also stated that this aspect of capacity planning is unavoidable but Piedmont attempts to mitigate the impact of any mismatch through its use of bridging services, capacity release, and off-system sales activities.

The Public Staff Panel testified that they had reviewed the testimony and exhibits of the Company’s witnesses, the monthly deferred gas cost account and operating reports, and the gas supply and pipeline transportation and storage contracts, the reports filed with the Commission in Docket No. G-100, Sub 24A as well as the Company’s responses to the Public Staff’s data requests. The Public Staff Panel further testified that, although the scope of Commission Rule R1-17(k) is limited to a historical review period, the Public Staff also considered other information in order to anticipate the Company’s requirements for future needs, including design day estimates, forecasted gas supply needs, projection of capacity additions and supply changes, and customer load profile changes. Based on this review, the Panel testified that the Company’s gas costs were prudently incurred.

In its Order Providing Notice of Commission questions in this docket, and on questions from the Commission at the hearing of this matter, the issue was raised as to whether Piedmont’s capacity acquisition planning and arrangements were adequate to meet customer needs in light of customer growth and changing dynamics on the interstate pipelines through which Piedmont receives upstream supplies of gas. In particular, the Commission inquired about the dependability of secondary firm market segmentation and the impact on Piedmont’s capacity deficit in the 2020-2021 timeframe should ACP not go into service as projected.

Piedmont’s testimony supports the fact that Piedmont has an affirmative obligation to maintain sufficient upstream capacity assets to serve its firm customers natural gas needs. These needs are not constant throughout the year and, accordingly, Piedmont acquires upstream capacity for baseload supply, seasonal demand during the November through March timeframe each year, and for peak day projected demand on the coldest days of the year. In order to meet its obligations to customers, Piedmont must ensure that these baseload, seasonal, and peak day assets exceed projected customer consumption patterns. In addition, Piedmont utilizes a five percent (5%) reserve margin in its capacity planning and acquisition activities in order to provide a cushion against higher than projected customer demand or the potential for a constraint on its upstream capacity assets on a peak day. The testimony of Company witness Raney and the testimony of the Public Staff Panel support the conclusion that Piedmont’s capacity acquisition planning and arrangements are reasonable and prudent to meet projected customer demand.

The evidence also demonstrates, however, that Piedmont's capacity planning has been impacted by changes in flow patterns that have occurred in recent years on the Transco pipeline. These changing flow dynamics, which include the reversal of flows in Transco's Zone 5 on occasion, have created uncertainty about the relative firmness of deliverability of supply utilizing North to South secondary segmented transportation rights from downstream supply sources on Transco. Piedmont has undertaken certain steps to "firm up" its capacity portfolio with respect to these supplies by entering into Asset Management Agreements which require the asset manager to provide firm delivery in lieu of relying on secondary segmentation rights. According to Piedmont witness Raney, the additional capacity promised by the ACP project and the proposed Robeson LNG project will also mitigate the negative impacts of changing flow dynamics on Transco, which currently provides the vast majority of natural gas supplied to Piedmont in North Carolina.

Based on the foregoing, the Commission concludes that the Company's gas costs incurred during the review period were reasonable and prudently incurred and that the Company should be permitted to recover 100% of its prudently incurred gas costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17

The evidence supporting this finding of fact is contained in the direct and rebuttal testimony of Company witness Tomlinson and the Public Staff Panel testimony.

Company witness Tomlinson testified that based on the Company's deferred gas cost accounts end-of-period balances, as reflected on Tomlinson Exhibit_(MBT-1), she recommended that the increments/decrements to Piedmont's rates be placed into effect for a period of 12 months after the effective date of the final order in this proceeding.

The Public Staff Panel testified that they had reviewed Company witness Tomlinson's proposed temporary rate increment applicable to the Sales Customers Only Deferred Account balance in Tomlinson Exhibit_(MBT-4) and the proposed temporary rate increments applicable to the All Customers Deferred Account balance in Tomlinson Revised Exhibit_(MBT-3). While the Public Staff Panel agreed with the accuracy of the temporary increment calculations, the Panel did not recommend that the Company implement an increment for the Sales Customers Only Deferred Account because Piedmont's Sales Customers Only Deferred Account balance (including the Hedging Deferred Account balance) "flipped" from a debit balance to a credit balance of ($4,895,050) as of June 30, 2019. The Panel opined that implementing an increment (which is an increase to customers) while there is a credit balance (a refund is due to customers) would be counter-productive. Witness Tomlinson stated that Piedmont did not oppose this recommendation.

The Panel also recommended that Piedmont remove all temporary rates that were implemented in Docket No. G-9, Sub 727, Piedmont's last annual review proceeding, and implement the temporaries to the All Customers Deferred Account as calculated in Tomlinson Exhibit_(MBT-3).

Based on the foregoing, the Commission concludes that it is appropriate for the Company to remove the temporary rates that were implemented in Docket No. G-9, Sub 727, and to implement the Company's proposed temporaries to the All Customers Deferred Account in the instant docket.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

The evidence supporting this finding of fact is contained in the rebuttal testimony of Company witness Tomlinson and the testimony of the Public Staff Panel.

The Public Panel testified that it recommended additional secondary market reporting by the Company to provide more detailed information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019. The Panel further testified that the monthly information should include the accounting month, date of the transaction, third party shipper/customer, sales price charged, gas costs assigned to each transaction, volume, term of the transaction, basis of the sales price, and the basis for the gas costs assigned. The Panel stated that the Company agreed with the additional reporting recommendation and planned to work with the Public Staff on the format to provide the information. The rebuttal testimony of Company witness Tomlinson confirmed that the Company is agreeable to the additional secondary marketing information requested.

Based on the foregoing, the Commission concludes that it is appropriate for Piedmont to begin providing the more detailed secondary market information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

The evidence supporting this finding of fact is contained in the supplemental testimony and exhibit of the Company witness Tomlinson and the testimony of the Public Staff Panel.

Company witness Tomlinson testified that it is appropriate for the Company to use its overall allowed rate of return on a net-of-tax basis as the interest rate for the Sales Only Deferred Account, the All Customers Deferred Account, the Hedging Deferred Account, the NCUC Legal Fund Account, the Margin Decoupling Tracker and the Integrity Management Rider deferred accounts, as well as the regulatory liability account holding the over-collected tax revenues associated with the federal tax reform changes effective January 1, 2018.

The Public Staff Panel stated that the requirement regarding the current interest rate to use in the Deferred Gas Cost Accounts was established in the Commission's Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued September 29, 2016, in Docket Nos. G-9, Sub 682, E-2, Sub 1095, and E-7, Sub 1100. The Panel explained that any change in federal and state tax rates should lead to changes in the interest rate. As stated earlier in the Public Staff Panel's testimony, each month the Public Staff's Accounting Division reviews the Deferred Gas Cost Account reports filed by the Company for accuracy and reasonableness, and performs several audit procedures on the calculations, including, but not limited to, the interest calculations. The Panel testified that during the first seven months of the current review period, Piedmont's interest rate of 6.94% reflected the state corporate income tax rate of 3%, as well as the 21% federal income tax rate in effect as of January 1, 2018. The Panel further testified that because the state corporate income tax rate changed to 2.5% on January 1, 2019, the Company's net-of-tax overall rate of return during the remaining five months of the review period, January 1, 2019, through May 31, 2019, was 6.95%. The Public Staff Panel agreed that the Company appropriately changed its interest rate in the Deferred Accounts based on the changes in tax rates.

Based on the foregoing, the Commission concludes that the appropriate interest rate to apply to Piedmont's Deferred Accounts is 6.94% for the first seven months of the current review period and 6.95% for the last five months of the current review period. The Commission further concludes that it is appropriate for Piedmont to continue applying the 6.95% interest rate to its Deferred Gas Cost Accounts and the regulatory liability account holding the over-collected tax revenues until further order of the Commission.

IT IS, THEREFORE, ORDERED as follows:

1. That the Company's accounting for gas costs during the 12-month period ended May 31, 2019, is approved;

2. That the gas costs incurred by Piedmont during the 12-month period ended May 31, 2019, including the Company's hedging costs, were reasonably and prudently incurred, and Piedmont is hereby authorized to recover 100% of its gas costs incurred during the review period;

3. That the Company shall remove the existing temporaries that were implemented in Docket No. G-9, Sub 727, and implement the temporaries for the All Customers Deferred Account, as found appropriate herein, effective for service rendered on and after the first day of the month following the date of this Order;

4. That it is appropriate for the Company to apply an interest rate of 6.94% for the first seven months of the current review period, and an interest rate of 6.95% for the last five months of the current review period and all subsequent months, until further order of the Commission;

5. That it is appropriate for Piedmont to provide more detailed secondary market information regarding its monthly capacity release and off system sales transactions beginning with the month of June 2019;

6. That Piedmont shall give notice to its customers of the rate changes allowed in this Order; and

7. That Piedmont shall file revised tariffs within five (5) days of the date of this Order implementing the rate changes approved in Ordering Paragraph No. 3 above.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of January, 2020.

NORTH CAROLINA UTILITIES COMMISSION

Janice H. Fulmore, Deputy Clerk